

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
May 25, 2011**

A regular meeting of the Nebraska Investment Council convened at 8:36 a.m. at the Embassy Suites in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on April 15, 2011, and published in the Lincoln Journal Star on May 15, 2011. Notice of the public hearing was published on the Nebraska Public Meeting Calendar on April 15, 2011, and published in the Omaha World Herald and the Lincoln Journal Star on April 17, 2011.

Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson
Dr. Richard DeFusco
Mr. John Maginn
Mr. John Dinkel (departed at 3:10 p.m.)
Mr. Norm Riffel (departed at 3:10 p.m.)
Ms. Phyllis Chambers
Treasurer Don Stenberg

NONMEMBERS IN ATTENDANCE:

Mr. Jeff States, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Christopher Heinrich, Harding & Shultz
Mr. Kevin Vandolder, Hewitt EnnisKnupp
Mr. Joe Jurich, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Joe Spitznagel, Nebraska Investment Council
Ms. Karen Rode, Hewitt EnnisKnupp
Mr. Rob Parkinson, Hewitt EnnisKnupp
Ms. Nancy Williams, Hewitt EnnisKnupp
Ms. Rachel Biar, State Treasurer's Office
Mr. Gary Bush, AS, State Budget Office

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:36 a.m. to 8:37 a.m. Ms. Werner-Robertson advised that the Nebraska Open Meetings Act applies and stated that a copy of the Open Meetings Act is located on the side table.

APPROVAL OF THE MINUTES OF THE MARCH 30, 2011 MEETING: 8:37 a.m. to 8:38 a.m. Mr. Maginn moved that the April 12, 2011, draft of the minutes of the March 30, 2011, meeting be approved as written. Dr. DeFusco seconded the motion. Ms. Werner-Robinson called for a roll call vote.

VOTING AYE:	Dr. DeFusco
	Mr. Maginn
	Mr. Dinkel
	Mr. Riffel
	Ms. Werner-Robertson

The motion carried.

COUNCIL MEMBER BUSINESS: 8:38 a.m. to 8:42 a.m. Ms. Werner-Robertson welcomed everyone to the meeting. Ms. Werner-Robertson stated that a rulemaking public hearing will be at 10:00 a.m. during today's Council meeting. The purpose of the hearing which will be recorded, is to take testimony and evidence about adoption of Nebraska Administrative Code Title 213, Chapter 2, entitled "Personnel Management."

Ms. Werner-Robertson stated that returns have been good. Ms. Werner-Robertson recently received positive comments about the good job that the NIC and PERB have been doing, confirming the Council's and PERB's common sense, Nebraska values approach.

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
May 25, 2011**

Ms. Werner-Robertson indicated that the agenda for the July 13-14, 2011 retreat at Quarry Oaks is being developed, members should contact Mr. States if they have any suggestions. Ms. Werner-Robertson reported that Dr. DeFusco and Mr. Dinkel have agreed to serve with Mr. States on the Consultant Search Committee.

Mr. States and the Council congratulated Ms. Werner-Robertson as being selected as a 2011 Tribute to Women honoree by the Women's Center for Advancement. Ms. Werner-Robertson will be honored at the 24th Annual Tribute to Women event in Omaha on June 7, 2011.

PRIVATE EQUITY PORTFOLIO PERFORMANCE, ENDOWMENTS ALLOCATION, AND MANAGER RECOMMENDATION PRESENTATIONS: 8:42 a.m. to 10:07 a.m. Ms. Rode and Mr. Parkinson reviewed the Private Equity Fourth Quarter Performance Report included in the meeting book. The report included an overview of the portfolio, performance, and duration. Ms. Rode and Mr. Parkinson reviewed the portfolio by fund size and strategy and discussed the risk/return spectrum of the investments. Mr. Parkinson and Ms. Rode provided a review of the methodology used by Hewitt EnnisKnupp in manager selection and discussed the advantages of this new approach.

Ms. Rode and Mr. Parkinson reviewed with the Council two new funds being offered by RCP Advisors, LLC, RCP Fund VII, L.P. and RCPDirect, L.P. RCP Advisors, LLC is a private equity firm headquartered in Chicago, IL with an additional office located in Costa Mesa, CA. RCP Advisors, LLC manage a series of private equity fund of funds focused on the small and middle-market buyout space, including one focused on secondary opportunities and on co-investment fund.

Mr. Parkinson indicated that Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of RCP Advisors, LLC. Mr. Parkinson discussed the investment merits and concerns associated with the Firm. Mr. Parkinson indicated that Hewitt EnnisKnupp recommends for the General Endowment Funds and HealthCare Endowment, that the Council commit \$30 million to RCP Fund VII, L.P. (not to exceed 10% of the Fund) and \$10 million to RCPDirect, L.P. A copy of their presentation was included in the meeting book.

PRESENTATION BY RCP ADVISORS, LLC: Mr. States introduced from RCP Advisors, LLC, Mr. Charles Huebner, Managing Principal and Mr. Tom Danis, Managing Principal. Mr. Huebner and Mr. Danis gave an overview of the Firm and discussed the funds RCP Fund VII, L.P. and RCPDirect, L.P. Following their presentation the Council decided to continue with its discussion after the public hearing was held.

PUBLIC HEARING ON PERSONNEL MANAGEMENT 10:07 a.m. to 10:18 a.m. Mr. States stated that the purpose of the hearing is to receive testimony and evidence about the adoption of the Nebraska Administrative Code Title 213, Chapter 2, entitled "Personnel Management". Mr. States and Mr. Heinrich described the purpose and content of the proposed rule. Mr. States invited public comment on the proposed rule. No member of the public testified or presented evidence regarding the proposed rule. Following discussion by the Council, Mr. Maginn moved to approve the proposed rule. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote. A copy of the proposed rule and hearing's transcript is included in the attachments to the minutes.

VOTING AYE:	Mr. Maginn
	Mr. Dinkel
	Mr. Riffel
	Ms. Werner-Robertson
	Dr. DeFusco

The motion carried.

The Council took a break and reconvened at 10:35 a.m.

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
May 25, 2011**

DISCUSSION OF ENDOWMENT FUND OF FUNDS ALLOCATION-CONTINUED: 10:35 a.m. to 11:13 a.m. The Council continued with its discussion on RCP Fund VII, LP and RCPDirect L.P. commitments. Questions were raised about making new commitments at this time for the General Endowments and HealthCare Endowment given the ongoing review of the asset allocation and spending policies for the endowments. The Council delegated to the State Investment Officer the decision on the final size of a commitment to RCP Fund VII once he and the staff completed their meetings with all the entities with General Endowment assets and have also done more due diligence on other add-ons. The State Investment Officer recommended that the Council take no action on the recommendation to make a commitment to RCPDirect. L.P. Following discussion Mr. Maginn moved to accept Hewitt EnnisKnupp's recommendation to commit to RCP Fund VII, L.P. an amount not to exceed 10% of the fund; or greater than \$30 million, pending legal review of the Limited Partnership Agreement. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Riffel
	Ms. Werner-Robertson
	Dr. DeFusco
	Mr. Maginn

VOTING NAYE:	Mr. Dinkel
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The motion carried.

PRESENTATION BY LIGHTYEAR CAPITAL, LLC: 11:13 a.m. to 11:45 a.m.

Ms. Rode and Mr. Parkinson reviewed with Council Lightyear Fund III, a new fund being offered by Lightyear Capital, LLC. Lightyear Capital LLC located in New York, NY, is a private equity firm specializing in the financial services industry, which includes banking, insurance, brokerage, financial technology, student lending, leasing and others.

Mr. Parkinson indicated that Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of Lightyear Capital LLC. Mr. Parkinson discussed the investment merits and concerns associated with the Firm. Mr. Parkinson indicated that Hewitt EnnisKnupp recommends that the Council commit \$20 million to Lightyear Fund III for the Defined Benefit and Cash Balance Benefit Plans. A copy of their presentation was included in the meeting book.

LIGHTYEAR CAPITAL LLC PRESENTATION: Mr. States introduced Mr. Mark Vassallo, Managing Partner, Mr. Michael Doppelt, Managing Director, and Mr. Steward Gross, Managing Director. Their presentation included an overview of the firm and the current fund offering. Following discussion by the Council, Mr. Riffel moved to adopt Hewitt EnnisKnupp's recommendation to commit \$20 million to Lightyear Fund III, L.P. pending a legal review of the Limited Partnership Agreement. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Riffel
	Ms. Werner-Robertson
	Dr. DeFusco
	Mr. Maginn

VOTING NAYE:	Mr. Dinkel
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The motion carried.

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
May 25, 2011**

PRESENTATION BY MFS INVESTMENT MANAGEMENT: 11:45 a.m. to 12:10 p.m. Mr. States introduced Mr. Mike Cantara, Investment Officer and Ms. Kim Hyland, Relationship Management. Their presentation included an overview of the firm, its investment philosophy, strategy and process, its performance objectives and its historic performance results. A copy of the presentation is included in the attachments to the minutes.

1ST QUARTER 2011 PERFORMANCE REPORT BY HEWITT ENNISKNUPP: 12:10 p.m. to 1:20 p.m. Mr. Vandolder informed the Council that due to weather related conditions, Mr. McLerran's flight was delayed and he is unable to attend today's meeting. Mr. Vandolder provided the Council a Defined Benefit Plan's Preliminary Performance Summary as of April 30, 2011. A copy is included in the attachments to the minutes. Mr. Vandolder reviewed with the Council the 1st Quarter Performance Report included in the meeting book, commenting on the market environment, the portfolio's investments, and fee schedules. Mr. Vandolder discussed the memo included in the meeting book relating to changes in the GMO International Active Equity Team. Mr. States and Mr. Vandolder reported that HEK has conducted an investment management fee review for all the public market managers within the Defined Benefit and Cash Balance Benefit Plans. Mr. Vandolder reported that HEK has negotiated a lower fee schedule with Acadian Asset Management, Inc. Mr. Vandolder discussed the methodology used by HEK to determine expected rates of return. A copy of his presentation was included in the meeting book.

The Council took a break and reconvened at 1:30 p.m.

OPERATING INVESTMENT POOL REVIEW: 1:30 p.m. to 1:50 p.m. Mr. Joe Spitznagel, NIC Portfolio Manager for the Operating Investment Pool provided a cash flow analysis of the Operating Investment Pool as previously requested by the Council. A copy of the presentation was included in the meeting book.

PRESENTATION BY UNIVERSITY OF NEBRASKA FOUNDATION: 1:50 p.m. to 2:15 p.m. Mr. States introduced Mr. Dan Morin, Senior Vice President & Director of Investments, Mr. LaRoy Brantley and Mike Dunleavy with Cambridge Associates. Mr. Morin gave an historical overview of the Othmer-Topp Endowment Fund, which is included in the University of Nebraska – Fund N. The Foundation is the investment manager for Fund N. Mr. Morin gave an update on the organization, investment process and results. Mr. Brantley from Cambridge Associates, which serves as the investment consultant to the Foundation, reviewed the 1st Quarter Performance Report with the Council. A copy of the report was included in the meeting book.

AUDIT COMMITTEE REPORT: 2:15 p.m. to 2:25 p.m. Dr. DeFusco reported that he and Mr. Maginn had met with Ms. Jan Westerman, NIC Internal Auditor after the March 31, 2011, Council meeting. Dr. DeFusco stated that the Audit Committee will meet again next quarter with the Internal Auditor and report back to the Council at that time. A copy of the Audit Committee Report is included in the attachments to the minutes.

STATE TREASURER'S REPORT: 2:25 p.m. to 2:30 p.m. Treasurer Stenberg reported that the College Savings Plan's call center move to Kansas City, MO is on schedule. Treasurer Stenberg reported that the 2011 College Savings Program's essay contest has just been completed. Essays from seventh and eighth grade students in Nebraska and across the United States submit essays on "Why I Want to Go to College".

NPERS DIRECTOR'S REPORT: 2:30 p.m. to 2:40 p.m. Ms. Chambers stated that the legislation reported at the last NIC meeting was approved by the Legislature. Ms. Chambers reported that an interim study to examine the retirement plans is scheduled for later this year. The PERB retreat will be held this summer at Quarry Oaks Golf Club, with presentations by Mr. Dave Slishinsky, Mr. Kevin Vandolder, and Mr. Dale Comer. Ms. Chambers reported on the Defined Contribution and Deferred Compensation Plans' Excessive Trading Policy, which was implemented May 1, 2011. Ms. Chambers informed the Council that NPERS is also working on a compliance audit. Ms. Chambers stated that in June NPERS will be very busy with a number of teacher retirements.

STATE INVESTMENT OFFICER'S REPORT: 2:40 p.m. to 3:24 p.m.

Legislative Update: Mr. States informed the Council that the NIC's budget for the next biennium has been approved. The Appropriations Committee and the Health and Human Services Committee will conduct an interim study on the long term sustainability of the Nebraska Health Care Cash Fund.

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
May 25, 2011**

1st Quarter Asset Summary Report: Mr. States reviewed the Asset Summary Report included in the meeting book and reported assets under management totally over \$16 billion.

Agency Budget Report: Mr. States reviewed with the Council the Agency's April 30, 2011 Budget Report, which was included in the meeting book and reported that the Agency is under-budget for the fiscal year.

Securities Lending Report: Mr. States reviewed the quarterly Securities Lending Report, which included detail on revenue earned, counter parties, and cash reinvestment portfolios. A copy of the report was included in the meeting book.

FX Currency Trading Practices: Mr. States reviewed with the Council the memo and article included in the meeting book.

Health Care Transfer: Mr. States reviewed the Health Care Endowment Fund Report included in the meeting book. The Health Care Endowment Fund (market value as of 3/31/11, of \$353M), includes two separate accounts within the Fund: the NE Medicaid Intergovernmental Trust Fund (\$108M, or 31% of the total fund) and the NE Tobacco Settlement Trust Fund (\$245M, or 69% of the total fund). Per Nebraska Revised Statute § 71-7611 "The State Treasurer shall transfer fifty-nine million one hundred thousand dollars annually no later than July 15" from the Fund. "The State Investment Officer upon consultation with the Nebraska Investment Council shall advise the State Treasurer" how much to allocate from each of the two components "in order to sustain such transfers in perpetuity."

Mr. States recommended that 31% of the distribution be taken from the NE Medicaid Intergovernmental Trust Fund and 69% of the distribution be taken from the NE Tobacco Settlement Trust Fund.

Following discussion by the Council, Mr. Dinkel made the following motion: I move that per Nebraska Revised Statute § 71-7611, the State Investment Officer advise the State Treasurer to transfer 31% of the \$59.1 million annual payment (or \$18.3 million) from the Nebraska Medicaid Intergovernmental Trust Fund and 69% of the payment (or \$40.8 million) from the Nebraska Tobacco Settlement Trust Fund. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:

Ms. Werner-Robertson
Dr. DeFusco
Mr. Maginn
Mr. Dinkel
Mr. Riffel

The motion carried.

Educational Seminars and Conferences: Mr. States informed the Council that he plans to attend the IFE Market Makers 2011 conference and requested Council members let him know if they are interested in attending, too.

Action Plan and Articles: Mr. States indicated that there may be a change in the meeting dates and requested Council members bring their calendars to the July 13-14, 2011 retreat at Quarry Oaks Golf Club. The Council discussed the article included in the meeting book relating to the changes at AON Hewitt.

Investment Consultant RFP Update: Mr. States stated that Dr. DeFusco and Mr. Dinkel will serve on the Investment Consultant Search. He reported that eight responses for the full range of consultant services had been received. Five additional proposals were submitted to provide specialized alternative investment consultant services. The Committee plans to provide an update on the search at the July retreat, with finalist being presented at the August meeting.

Mr. Dinkel, Mr. Riffel and Treasurer Stenberg left the meeting at 3:10 p.m.

NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
May 25, 2011

PUBLIC COMMENT ON THE AGENDA: 3:24 p.m. to 3:25 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 3:25 p.m. Dr. DeFusco moved to adjourn the meeting. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Dr. DeFusco
	Mr. Maginn
	Ms. Werner-Robertson

ABSENT NOT VOTING:	Mr. Dinkel
	Mr. Riffel

The motion carried.


Kathy Dawes, Secretary